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DE RUEHIN #2412/01 1980638
ZNR UUUUU ZZH
R 170638Z JUL 06
FM AIT TAIPEI
TO RUEHBJ/AMEMBASSY BEIJING 5417
RUEHUL/AMEMBASSY SEOUL 7930
RUEHKO/AMEMBASSY TOKYO 7826
INFO RHMFIUU/DEPT OF ENERGY WASHINGTON DC

UNCLAS SECTION 01 OF 02 TAIPEI 002412

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EPA FOR OIA - DAN THOMPSON

E.O. 12958: N/A
TAGS: [ENRG](#) [ECON](#) [SENV](#) [TW](#)
SUBJECT: FACING REALITY--CHINA PETROLEUM AND TAIPOWER RAISE
PRICES

REF: A. 05 TAIPEI 3096 B. 05 TAIPEI 04548

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1. (U) SUMMARY. Last year, Taiwan authorities vowed not to raise fuel or utility prices (ref a). Facing rising international oil prices and mounting losses by state-owned energy and utility companies, the Executive Yuan relented and allowed price hikes at China Petroleum Company (CPC) and Taipower. CPC has increased its gasoline prices by 15.6 percent since February. Taipower raised electricity rates on July 1 by about 5.8 percent. CPC and Taipower say that the latest price increases will reduce its financial losses due to rising oil costs. The increase in prices could encourage energy conservation. END SUMMARY.

CPC PERSPECTIVE: PRICE HIKE ONLY TO CUT LOSSES

2. (U) China Petroleum Corporation (CPC), a wholly-owned government company, increased its gasoline prices by NT\$1.00 per liter on July 7 to NT\$28.6 per liter (NT\$ 32.5 = \$1.00). This follows a NT\$2.00 increase in April and a NT\$1.00 increase in February for a cumulative increase of 15.6 percent in gasoline prices. CPC estimates that since January cumulative losses on gasoline sales have reached NT\$200 billion. In the future, CPC plans to use an index price of gasoline in neighboring countries as a guide when considering price adjustments. The Executive Yuan also lowered the import tax on petroleum from the current 10 percent to 5 percent. CPC sources told AIT that CPC is also considering raising its natural gas prices since that sector is losing about NT\$2 billion per day.

3. (U) Formosa Petrochemicals, a subsidiary of privately-owned Formosa Plastics, also increased its gasoline prices by NT\$2.00 on April 19. Formosa Petrochemicals has not experienced the massive revenue losses that CPC has because its market is largely overseas, giving it more leeway to adjust prices in the absence of a state-owned competitor. According to news reports the latest gasoline price increases will likely drive Taiwan's inflation rate above 2 percent.

NEXT: ELECTRICITY PRICES TO RISE

4. (U) Taipower Company has not raised electricity prices since 1983. It has drawn from surplus revenue accrued over the years as a result of a price structure which puts the heaviest burden on commercial users. Households pay an average NT\$2.4 for kW/hour versus an industry average NT\$ 1.7 kW/hour. The

higher revenue gathered from commercial and household users allows Taipower to keep industrial rates low. Higher summer rates for electricity, which normally are in effect from June to late September are also a source of additional revenue. While these measures promote industry and exports by keeping production costs low, rising coal and fuel oil costs have forced the company to raise prices an average of 5.8 percent effective July 1. Households using over 330 kW/hours per month will pay 3 percent more. According to Taipower, the average monthly electricity use of small households is around 328 kW/hours so many consumers will not be affected by the price adjustments. Despite planned rate hikes Taipower estimates that it will lose NT\$9.2-17.8 billion over the next two years.

EFFECTS ON THE PUBLIC: MINIMIZED

15. (U) Electricity rates for street lights, traffic signals and schools will not be increased in order to ease the burden on local governments. Since June 21 Airlines have been adding fuel surcharges in their ticket prices. One bus company claimed that new gasoline prices will add NT\$300,000/day to its operating expenses. However, bus companies with existing long-term contracts with CPC will not be subject to gas price increases. Taxis will not be affected if they don't exceed a monthly quota of 550 liters. Bus companies are proposing to raise the base fare to NT\$20.00 from the current NT\$15.00. Because city officials are concerned that immediate increases in bus and taxi fares would be disruptive, they are considering phased-in price hikes to minimize the impact. The Ministry of Economic Affairs estimates that the increases will have a slight, less than one-tenth of one percent, negative impact on GDP.

COMMENT

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16. (U) Taiwan's public has enjoyed cheap energy and utility prices for two decades largely due to the fact that policy makers have preferred to subsidize costs rather than face up to economic reality and pass energy costs along to consumers. As a result, wasteful energy practices have continued, and CO2 emissions have increased. Eminent Taiwan scientist Lee Yuan-tseh has called for Taiwan to reduce its CO2 emissions through energy conservation. These latest price hikes may encourage the public and businesses to be more conscious about energy conservation and start thinking about alternative energy sources. End Comment.
YOUNG